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Kimball Electronics, Inc.

Third Quarter Fiscal Year 2022 Financial Results

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PRESENTATION

Operator

Good morning ladies and gentlemen, and welcome to the Kimball Electronics Third Quarter Fiscal Earnings Conference Call.

Today's call, May 6, 2022 is being recorded. A replay of the call will be available on the Investor Relations page of the Kimball Electronics website.

At this time, I would now like to turn the call over to Andy Regrut, Vice President and Investor Relations. Mr. Regrut, please, you may begin.

Andy Regrut

Thank you, Daniel, and good morning everyone. Welcome to our third quarter conference call. With me here today is Don Charron, our Chairman and CEO, and Jana Croom, Chief Financial Officer.

We issued a press release yesterday afternoon with our results for the third quarter of Fiscal 2022. To accompany today's call, a presentation has been posted to the Investor Relations page on our Company website.

Before we get started, I'd like to remind you that we will be making forward-looking statements that involve risks and uncertainty, and are subject to our Safe Harbor provisions as stated in our press release and SEC filings, and that actual results can differ materially from the forward-looking statements. All commentary today is focused on adjusted non-GAAP results. Reconciliations of GAAP to non-GAAP amounts are available in our press release.

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This morning, Don will start the call with a few opening comments, Jana will review the financial results for the quarter and guidance for Fiscal 2022, and Don will complete our prepared remarks before taking your questions.

I'll now turn the call over to Don.

Don Charron

Thanks, Andy. Good morning everyone. I'm very pleased with the incredibly strong results in Q3. Sales exceeded our all-time high in a quarter by 10%. Operating margin was 5.5% of net sales, which is significantly better than the first half of the fiscal year, and 80 basis points higher than a year ago. Diluted EPS increased more than 30% year-over-year.

With our backlog open orders at record levels, and manufacturing facilities running at higher utilization and capacity expansions underway, we are ideally positioned to maintain strength and momentum in this bifurcated year, and we expect the strong pace to carry through the fourth quarter. Further, given the strength of our funnel and a slate of new product introductions, we are well positioned to continue this solid performance into Fiscal Year 2023 and beyond.

I continue to be extremely impressed with our team and how we've managed the global supply chain issues stemming from the pandemic and the component shortages. The challenges in Q3, however, were compounded by the devastation in Ukraine. We have Ukrainian associates in our U.S. and European operations and facilities located in nearby Poland and Romania.

Our number one priority has been the health and safety of our associates and supporting their families directly affected by the conflict. Many of these individuals are actively involved in refugee support efforts, and our Company has made monetary donations as well. Our hearts and thoughts are with all people, both inside and outside the Kimball Electronics family impacted by this tragic turn of events.

We've also taken appropriate measures to safeguard our business and continue to fulfill customer commitments. In March, I traveled to our facility in Poznan, which is located in Western Poland, roughly 240 kilometers from Berlin, to meet with our team and tour the facility. We employ approximately 1,000 associates there and recently announced an expansion targeted for completion in early Fiscal Year 2024. I'm pleased to report the morale of the team is positive and upbeat.

The business is operating well, all things considered, and the expansion remains on schedule. We continue to monitor and evaluate information, including concerns over securing ample natural gas and other resources for our facilities. Longer term, it's estimated the conflict could cause incremental stress on global supply chains and further disrupt the auto industry.

Russia is a large exporter of commodities, including metals and mining output. Relative to car manufacturing, they are a major supplier of palladium, platinum, nickel, and aluminum. Palladium and platinum are key raw materials for catalytic converters, nickel is used in electric vehicle batteries, and aluminum and copper are needed for vehicle framing and wiring. Recently, prices for these commodities have been on the rise. However, with multiple global sources for the materials, the price movement has been characterized as manageable.

Ukraine also plays an important role in the auto industry by producing wiring harnesses for cars and being a supplier of neon and other noble gases that are critical for semiconductor production. Not surprisingly, many of the factories making these components have slowed or shut down altogether in the face of the conflict.

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There is some speculation that combined impact from Russia and Ukraine will increase auto part shortages and adversely affect car manufacturing in Eastern Europe and Germany. This is supported by Volkswagen's announcement earlier this year to cut production estimates for 2022. Some believe these steps could create an opportunity for Chinese automakers to fill the demand. However, given the fluidity of the situation, only time will tell. Please keep in mind that we do not directly purchase any materials from Russia or Ukraine, and the financial impact of the conflict on our operations in the quarter was not material.

One additional risk we are monitoring is the ongoing impact of China's Zero Tolerance policy related to COVID. As you know, several cities experienced shutdowns recently due to a rise in the number of COVID cases. If shutdowns continue to occur in major cities across China, there may be temporary disruptions in both the supply chain and demand as our customers' balance manufacturing delays. This concern is somewhat offset by the record output of semiconductors coming out of the Taiwanese market, a response to global demand.

We've updated our outlook for net sales to reflect the uncertainty from these developments, and while we are reiterating our guidance for operating income margin for Fiscal Year 2022, we expect it to come in at the lower end of the range. We anticipate the impacts of the China COVID lockdowns to be shorter term in nature, and that any temporary disruptions will rectify over time.

Turning back to the third quarter. Net sales were $368 million, a 19% increase compared to Q3 last year, and $50 million higher than Q2. The strength this quarter occurred in all four vertical markets, with sales and automotive exceeding $160 million, a 16% increase year-over-year, and were 44% of our total Company sales in the quarter. This represents an all-time high for the automotive vertical market and resulted from the ramp up of certain programs, including programs supporting fully electric vehicles.

It's also quite a turnaround from the second quarter when component shortages drove a decline in sales, but as conditions improved in Q3 and parts became more available, we were ready to respond. The investments made throughout the pandemic to maintain our highly trained workforce and strategic inventory builds in the first half of the fiscal year, both allowed us to quickly increase production in response to the strong worldwide demand for vehicles.

During the quarter, we also completed our multi-year strategic plan, with a comprehensive analysis of our positioning and growth opportunities within each vertical market. Our work confirmed that the megatrends in the auto industry continue to represent a meaningful tailwind for our company as electronic content is being added to cars and trucks, at an increasing rate, with advanced technologies and expanded operating systems. In addition, we see the rapid adoption of EVs, the expansion of autonomous driving, and vehicles with increasing "connectivity", as additional areas of upside where our chassis control expertise and core manufacturing competencies could align very well with the stringent production requirements of the automotive industry.

Net sales and medical were $103 million, a 20% increase compared to Q3 of last year and represented 28% of our total Company sales. This is a very good result for the medical vertical market and suggest the industry is continuing to recover and normalize from the pandemic. The increase this quarter was driven by the launch and ramp up of new programs, some of which are coming online in the quarter after pandemic-related delays.

Similar to automotive, the work in our strategic plan validated the long-term growth opportunities in medical, resulting from megatrends in the healthcare industry, including the world's aging population, increasing access affordability to healthcare, and decreasing device sizes and connected drug delivery systems.

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Industrial was up 22% in Q3, with sales totaling $84 million, representing 23% of our total sales. Once again, this quarter higher end market demand for climate control products, and new customer additions drove the increase. Longer term, we continue to see growth opportunities for this vertical as the importance of consumption awareness and conservation of water, gas, and electricity continues to increase globally.

Finally, sales from our public safety vertical were $13.8 million, a 2% increase compared to the third quarter of last year.

In summary, an excellent quarter and a promising outlook.

I'll now turn the call over to Jana to discuss Q3 in more detail and review our guidance for the balance of the year. Jana?

Jana Croom

Thank you, and good morning, everyone.

As Don just detailed, total net sales in the third quarter were $368 million, a record for our Company and up 19% compared to Q3 last year. Foreign exchange rates had an unfavorable impact of 2% on sales in the quarter.

The gross margin rate in Q3 was 9.2%, an 80 basis point increase over the same period last year, with the improvement driven by lower depreciation and the leverage gains that occur on higher levels of sales. As a reminder, the depreciation impact occurred when we changed the estimated useful lives on SMT production equipment last quarter. These benefits were partially offset by higher material costs and increased freight from the components part shortages.

Adjusted selling and administrative expense in the third quarter were $14.3 million, compared to $11.6 million in Q3 last year, with the increase resulting from higher salary and related payroll costs and stock-based compensation. When measured as a percentage of sales, however, adjusted selling and administrative expenses were 3.9%, a 20 basis point improvement compared to Q3 last year.

Adjusted operating income for the third quarter was $19.6 million or 5.3% of net sales. As Don highlighted, this was a significant improvement compared to the first half of the Fiscal Year, and to last year when adjusted operating income was $14.4 million or 4.6% of net sales.

Other income and expense was the expense of $2.1 million in the third quarter versus expense of $0.6 million in Q3 of Fiscal 2021, with the change resulting from higher interest expense this year and adjustments after the measurement period last year on the GES acquisition. The effective tax rate was approximately 25% in both Fiscal 2022 and Fiscal 2021 third quarters.

Net income in the third quarter of Fiscal 2022 was $13.6 million, or $0.54 per diluted share, compared to adjusted net income in Q3 last year of $9.9 million, or $0.39 per diluted share, representing a 37% increase year-over-year.

Now turning to the balance sheet. Cash and cash equivalent at March 31, 2022, were $35.6 million, and cashflow used for operating activities in the quarter was $28.2 million. This was primarily driven by an increase in accounts receivable due to higher sales in the quarter.

Cash conversion days in Q3 were 83 days, up from 66 days in the third quarter of last year. Inventory has continued to increase, up $157 million compared to Q3 last year, and $138 million higher in Fiscal '22.

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This trend is driven by material purchases that are needed and available today so that we can fill customer orders when parts impacted by the component shortages are received. We expect inventory levels to normalize as the part shortage situation improves and we work down the backlog of open orders.

Capital expenditures in the third quarter were $22.3 million, largely in support of our facility expansions and new business awards, such as the next generation braking system in Reynosa, Mexico, that we announced in February. We continue to expect total Capex in the range of $70 million to $80 million in the Fiscal Year.

Borrowings on our credit facility at March 31 were $137 million, compared to $60.5 million at March 31, 2021, and $103 million at the end of Q2. Our short-term liquidity available representatives cash and cash equivalents, plus the unused amount of our credit facilities totaled $78 million at March 31, 2022.

During the third quarter, we invested $4.9 million to repurchase 259,000 shares at an average price of $18.87. Since October 2015, under our Board authorized share repurchase program, a total of $84.6 million has been returned to our share owners by purchasing 5.6 million shares of common stock. We have $15.4 million remaining on the repurchase program.

Looking forward, our capital allocation priorities will continue to be, investing in organic growth first and foremost. This is evidenced by our three facility expansions in the last year and a half and capital expenditures to support new programs. Second, returning cash to our share owners with opportunistic share repurchases, and finally, strategic acquisitions that are appropriately valued. In fairness, these have been difficult to find in today's market.

While we have historically generated a lot of cash and have a strong balance sheet, we have also recently expanded our credit facilities to support these priorities. On May 4, we amended our primary credit facility, increasing the capacities from $150 million to $300 million with our banking partners. This amended five-year revolving credit facility gives us the flexibility to meet Capex and working capital needs to support expansions, new product introductions, and other long-term strategic goals.

As Don noted, we are updating our guidance for Fiscal Year 2022 with net sales estimated to be in the range of $1.345 billion to $1.365 billion, a 4% to 6% increase year-over-year. As a reminder, our previous guidance was for revenue of approximately $1.4 billion.

We are reiterating our guidance for operating income margin, which is expected to be in the range of 3.75% to 4.25% of net sales, albeit at the lower end, and capital expenditures totaling $70 million to $80 million. Based on our results through third quarter, this full year outlook suggests a top line in Q4 of approximately $370 million to $390 million, operating income margin in the range of 5 to 5.3% of sales, and Capex of $20 million to $30 million.

With that, I'll now turn the call back over to Don.

Don Charron

Thanks, Jana. I hope you all can sense that we are both very happy with how the Company is positioned. Q3 results were excellent and we expect a strong finish to the Fiscal Year of 2022 and with the momentum carrying into Fiscal Year 2023, especially as we think about the supply chain disruptions and component shortages continuing to abate the crisis in Ukraine, reaching a settlement, the recent COVID-19 related lockdowns in China subsiding, and the abnormally high levels of inflation slowing.

Our open order backlog totals $930 million, a record high of 43% year-over-year, and driven by component shortages as well as new business wins. This new business aligns our facility expansions with

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our customers growth as we look toward the $2 billion in annual sales milestone. Our strategic plan identified key areas of focus to achieve this goal, with manufacturing capacity being a critical one. We generated approximately $1 million of sales volume per 1,000 square feet in our facilities and the additional capacity we're adding is meaningful.

As an example, our facility in Thailand was first opened in the year 2000 and finished Fiscal Year 2021 with revenue in excess of $100 million. Much of the product produced in Thailand is exported with a heavy focus on medical; one of the vertical markets identified in our strategic plan was significant growth potential in the years to come.

Our recently completed expansion doubled the capacity of Thailand as we look to capitalize on those growth opportunities. Mexico, on the other hand, did more than $265 million of sales in Fiscal Year 2021, and is scheduled to have its footprint doubled with the expansion scheduled for completion this summer. This facility has a heavy focus on the automotive and industrial vertical market, which also aligns very well with the growth in our strategic plan.

Finally, Poland, a facility with $268 million of revenue last fiscal year, will be adding approximately 40% to its existing production square footage by early Fiscal Year 2024. The road to $2 billion in annual sales is in our sights. It took our Company 57 years to reach $1 billion in annual sales. I'm quite confident our second billion will be achieved in a fraction of that time. I frankly have never been more bullish about our Company.

Finally, I'd like to close by taking a moment to welcome the newest member of our leadership team, Isabel Wells, who joined the Company, the Kimball Electronics family, in April as our Chief Information Officer. Isabel brings over 20 years of global IT experience and will build upon the world-class organization that Sandy Smith left behind. We wish Sandy the best in her retirement. We are thrilled to have an executive of Isabel's caliber and pedigree on our team.

I would now like to open the line for questions. Operator, do we have any analysts with questions in the queue?

Operator

Certainly. The first question comes from Anja Soderstrom of Sidoti. Please proceed.

Anja Soderstrom

Hi. Thank you for taking my question and congratulations on another great quarter despite the challenging environment. First, I wanted to ask, which segment did you see most of that challenge in procuring materials? Is there anything to call out there or was it broad-based headwind?

Don Charron

Anja, it's broad based. All of our verticals have had to deal with component shortages through this period, and really, when we look at the rate of improvement, it's pretty similar across all verticals. As you can see from our quarterly report today, we were happy to get more material this quarter than last quarter that resulted in $50 million of additional sales in the quarter so it's obviously improving. It certainly improved from last quarter, but we're still battling everyday shortages to help us continue to improve our output and make up that order backlog that was caused by it.

Anja Soderstrom

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Okay, but you say it's improving slightly, but it's improving.

Don Charron

Yes. I mean, I think last quarter's sales compared to this quarter sales, that increase, really we had the same team in place, both quarters. We had the same capability to achieve that output in both quarters. The increase quarter-over-quarter came solely because we were able to get more material in to build more product. So, it is getting better.

Anja Soderstrom

Okay, and your margin sales are pretty well despite having this kind of headwind. Is there anything you can call out there that's helped you get these kind of margins?

Don Charron

Well, for sure, as we reported in the previous two quarters, we worked hard to keep our team in place to retain our highly skilled workers around the world. We didn't have the sales, didn't have the parts to generate the sales, so we reported under absorption really in both of the last quarters.

Seeing utilization move up with the increase in output certainly helped us a great deal and contributed significantly to the margin improvement because we didn't have that under absorption in the quarter.

Anja Soderstrom

Okay, and then during your prepared remarks, it seems like you're flagging for some risk of more headwinds within the auto market due to the war in Ukraine and how the auto market is dependent on supply from there. What are you seeing there currently? Has that started, or is that something you anticipate to happen?

Don Charron

Yes. As we stated, for the quarter we just finished and that we're reporting today, the impact was really negligible, not material. We're obviously keeping a very close eye on it. We're watching very carefully what the car makers in Europe are saying about their production schedules because we know eventually, that'll show up in our production schedules, but it was not impactful to Q3. With our updated guidance for the Full Year and for Q4, we contemplated what the impact could be short term in that fourth quarter.

Yes, there's a degree of uncertainty there in terms of how the Ukraine-Russia crisis impacts really the global economy, but especially the economy in Europe, we're watching that carefully. There's a degree uncertainty there, but at least for now, little impact in Q3 and we think we've contemplated the impact that's reflected in the Q4 guidance that we provided.

Anja Soderstrom

Okay, and then also, can you quantify how much of your backlog is due to supply headwinds and other headwinds versus new programs?

Don Charron

Yes. It's difficult to give you any degree of accuracy on the exact amount of that, but it's interesting as we analyze where we are year-to-date with our results, we look at our growth in inventory, we look at our

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growth in open order backlog, and we think if we didn't have the parts shortages that we've had during this fiscal year that has constrained our production, we'd be comfortably within the original Full Year guidance that we provided of $1.4 billion to $1.5 billion. So, it gives you at least a general idea how much of that backlog is due to the fact that we had shortages and couldn't fill orders that customers wanted.

There's also, as you know and we talked about in the last call, there's a significant amount of that order backlog increase that's due to new business awards. As those programs ramp up, they will add nicely to our growth strategy, and what we're talking about now is our path to $2 billion in annual revenue.

Anja Soderstrom

Okay. Thank you, and Jana, you mentioned your capital allocation priorities. What are your thoughts around the dividend?

Jana Croom

Dividend is something that we'll always look at as a Company in terms of capital allocation priorities. It's something along with share purchase that just as part of the normal work we do as a management team, we would evaluate with the Board, but as you know, that's a big decision and one that you don't take back once you do it. So, lots of conversation around capital allocation for Kimball.

Focus is very clearly on the organic growth that we've got, Capex at higher levels than the Company has seen historically in a long time, but we're evaluating.

Anja Soderstrom

Okay. Thank you. That's all for me.

Don Charron

Thanks, Anja. Have a good rest of the day.

Anja Soderstrom

You too. Thank you.

Operator

Thank you.

The next question comes from Hendi Susanto of Gabelli Funds. You may now proceed.

Hendi Susanto

Good morning, Don, Jana, and Andy?

Jana Croom

Morning, Hendi.

Don Charron

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Hi, Hendi.

Hendi Susanto

Don, would you refresh our memory in terms of the capacity expansion, doubling the capacity of the Thailand facility and Mexico facility? Does it mean potentially doubling the revenues in those facilities from, let's say combined sales of $365 million to $730 million? Furthermore, should we assume steady and incremental production increase, a step up increase, or a hockey stick figure?

Don Charron

Yes. I'll answer the first question. Certainly, when we evaluated the size of the expansions in those locations, you mentioned Thailand, Mexico, and of course Poland's coming next, or it's underway, when we put together our analysis and our business case to determine how big the expansion should be and capital that we wanted to allocate to it, yes, it contemplated filling those additional capacity expansions up with business that would equate to the business we have in those operations today. In other words, we're expecting to get roughly about the same output in sales out of those expansions that we've gotten out of the existing facilities. That's roughly the business case.

So, yes, doubling Thailand, doubling Mexico, would mean that in the next, let's say three to five years, we'd expect to be approaching the capacity limits, or higher, that utilization level we want to have in those expansions.

In Poland, it's not as big of an expansion as Thailand and Mexico. We're adding roughly 40% to our manufacturing footprint there, but the same would hold true. The business case we used to deploy that capital was to fill that expansion with business in a commensurate kind of sales per square footage ratio.

Hendi Susanto

I see, and then, Don, can you talk about exposure to EV, or say like xEV? Then how should we assume gross margin in EV versus traditional combustion engine models?

Don Charron

Yes, I don't know if I understood your question perfectly well, Hendi, but maybe I'll start—work it backwards. In terms of a different margin profile for the content that we have on electric vehicles versus internal combustion engines or a hybrid, there's really no significant difference. It's very similar in terms of how we build our proposals to customers and how we're awarded business.

What is different, I would say in the automotive playbook that we run by today, is really being just very intensive around the volume discussion. What is the volume that we're quoting? What is the current volume? What is the part of the market that that car maker is going to go after? What are their underlying assumptions? Because really what makes our economic model work is considering the economies of scale and those volumes, how fast they ramp up and how accurate they are.

As you can imagine with electric vehicle car makers, getting the volume right has been a little bit difficult. You could say maybe Tesla by far and away is ahead of the pack with what they're able to do to forecast volumes and build to it and sell those vehicles, especially the latest sort of round of what they were able to do in Shanghai.

So, there are differences for sure, and when we consider that volume question and manage to the business plan that we're putting together behind that volume, we really want to de-risk that in our whole

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quoting process and making proposals to customers and in our execution when we start those programs up in our facilities.

I hope I answered your question there. Not a difference in margin profile, and the key really is still the same. Whether it's an electric vehicle, or an internal combustion engine, or a hybrid of the two, getting the volume right is really key to success in our business.

Hendi Susanto

I see, and then Jana, may I seek your advice in terms of how to model the tax rate going forward?

Jana Croom

Yes. I would assume our tax rate in the mid-20's all in would be fair somewhere in 23% to 25%.

Hendi Susanto

Okay. That's helpful. Okay, thank you so much.

Don Charron

Thanks, Hendi.

Jana Croom

Thank you, Hendi.

Operator

Thank you. The next question comes from Mike Morales of Walthausen & Company.

Jana Croom

Hey, Mike. Good morning.

Mike Morales

Hey, good morning, Don, Jana and Andy. Thanks for taking my question, and again, I'll echo good work on navigating a challenging environment. So folks, maybe just first a housekeeping question touching on the eye popping backlog really.

Is any of the new auto contracts to be produced in the Mexico facility included on that as there's some small amount, or really just trying to parse between as much as we can supply chain disruptions versus new business or pipeline growth here?

Don Charron

Yes, for sure. New automotive awards are being placed in our footprint, including the expansions that we talked about in Mexico and soon to be in Poland. We don't do automotive per say at large volumes in Thailand, but it's more of a medical focus there. But yes, those new awards are being placed into those expansions for the business plan that we have.

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Some cases, only maybe a small amount has so far ended up in our open order backlog. Probably the biggest increase that's in there. Jana mentioned the next generation braking program that we were awarded and starting up production now. That would be a significant one that has been added to the open order backlog during this fiscal year, and there are others.

There are several others. The expansions really allowed us to be able to execute our plan more, to be further out with those awards. It's difficult to have a customer of ours give us the award when the plant is not built yet, but we're at least a couple of years out in working on those new orders. As we work on them, we're making soft allocations of our footprint to those customers.

Mike Morales

Makes sense. Maybe touching on freight specifically, switching gears a little bit. Can you guys just shed some color on how you're managing or thinking about freight with just the magnitude of cost inflation that we've seen, and when we have contract negotiations starting at Long Beach soon? How's that all factoring into your thinking and how you're planning here?

Don Charron

Yes, Mike, I'll just keep that one very simple. I mean, we're part of the negotiation, if there's much of a negotiation to be had, frankly, but our strategy for our business and how we work with our customers is to pass that through to the selling price, whatever that increase is. We're pretty transparent about that with our customers.

We're proactive about that, and I would say we're fortunate to have customers that understand that we can't be caught in the middle, caught in the squeeze, and while they're not happy about getting a price increase with those kinds of cost increases being passed through, but they understand. We look to neutralize ourselves and not to have a margin impact due to freight increases. Again, the strategy is simple, we have to pass it through the selling price.

Mike Morales

Great. Thanks, and just looking back in my notes, and there was a slide in the deck about this one, but Don, you talked about, it was back in Fiscal 2018, you guys got it for over $1 billion in revenue. You achieved it that year. A few years later, here we are with $2 billion on the horizon.

From the commentary, the color and the deck was helpful on the facility expansions and kind of what's happening there. I know it's a bit early, but are you starting to think about other capital projects as you look beyond $2 billion? Just with the strength of the pipeline, it sounds like that reasonably could be on the table here.

Don Charron

Yes, especially towards the sort of the out year of that plan. As we mentioned today, our planning cycle coincides with our fiscal year, and as we look to close up Fiscal Year 2022, we're working on a plan for the next three years. So, we're looking at 23, 24 and 25.

As we look out there on the horizon at our 25, growth and sales figure as a result of it, yes, we can see that there are a few facilities that we're going to have to look at next for expansion to achieve what comes after $2 billion. We would say this though, I mean, if all of our growth fell perfectly well in the footprint we have and that we're expanding, maybe that wouldn't be the case, but we know there are some—I mean, we announced three facility on expansions, Mike, so you know our footprint is very popular. That part of

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our footprint has been very popular. Obviously, we sold out the capacity and we are now on expansion mode. We have other facilities that are also approaching full utilization. So, as we look at our three-year plan, we're factoring in those kinds of needs as well. The good news is we still have room to expand where we operate.

One of the things that we would like to do with the footprint strategically speaking is to just maximize and optimize within the locations where we're operating, and not necessarily go with another new country kind of add in this planning horizon. As a leadership team, we're working closely on expansion plans of the footprint we currently operate in.

Jana Croom

One thing that I'll add to that is, we are working on an analyst day that we're currently putting together that we hope to have in late fall, which will give more color on the strategic plan, capital allocation discussions, organic growth, etc. So, we can help you model out further than the next fiscal year. We can shed light on what we're thinking about for the next 3, 5, and 10 years as a Company.

Mike Morales

Yes, and you read my mind. It sounds like a great topic for an analyst day.

Great, and then lastly for me, touching on the medical side a bit, you mentioned this in the prepared remarks, but it seems like trends are starting to "normalize" here as much as we can call anything normal these days. Don, if you could just speak to the opportunities that you're seeing there on the new business development side as well, as we keep in mind the goal of getting that to 30% of revenue, longer term.

Don Charron

Yes. I think that there's a lot of our customers, both existing and customers working to land, that are really seriously rethinking a lot of their strategies around manufacturing, supply chain, contract manufacturing, etc. I think as we see it, it's all sort of good news for us in the contract manufacturing space.

With our existing customers, we have really solid growth plans in place for them and we look to take full advantage of those growth opportunities with customers like Phillips Medical, who as you know we disclosed as the customer with greater than 10% of our total Company sales. So, we've got opportunities with people like Phillips and multiple different product categories and different divisions, which is really exciting.

We also have a number of other existing customers that are presenting us with really significant growth opportunities, so we're excited about that. I would say, more than anything, if the pandemic caused anything, it caused a lot of these medical med tech companies to sort of rethink their strategies and again, embracing the outsourcing model more and more, and making decisions about how they want to geographically locate their manufacturing partners, and that's all good for us.

It's all good for us and leading us to new customers and growth opportunities with existing customers.

Mike Morales

Great. Don, Jana, Andy, I appreciate it. Thanks again, and speak soon.

Don Charron

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Okay, Mike.

Operator

Thank you. There are currently no further questions registered at this time.

Don Charron

Thank you everyone. That brings us to the end of today's call. We appreciate your interest and look forward to speaking with you in the near future. Take care.

Operator

That concludes the conference call. Thank you for your participation. You may now disconnect your lines.

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